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NEW MORTGAGE CLIMATE SHAPING UP

WITH spring rapidly approaching, a major change in the mortgage climate, appropriately enough, seems to be in the making. Like the new season, the shift toward easier credit at the present time is barely visible to the naked eye. However, in coming months, both are likely to be in full bloom.

A few signs of the trend, in fact, already have appeared. The yield on 91-day Treasury bills, that sensitive barometer of the short-term money market, in recent weeks has slipped to around 2-1/4%, from nearly 2-3/4% toward the close of last year, when credit was tightest. Other Treasury securities are up a bit since January 1, too. Demand for home loans also has increased slightly and, as a consequence, discounts have tended to shrink. While no great improvement has taken place as yet, lenders agree that quotations for VA and FHA liens are up perhaps a half-point or so from their lows. Similarly, a growing number of FHA insuring offices are of the opinion that mortgage money is more readily available today than in recent months.

In addition, Government moves in the fields of housing and home finance, while not especially vigorous or determined, all have been in the direction of easier credit. In mid-January, FHA and VA restored to 30 years the maturity on insured and guaranteed mortgages which, since July 30, 1955, had been restricted to 25 years. Shortly thereafter the Federal National Mortgage Association (FNMA) made clear its intention of stepping up its activities in the secondary mortgage market. To help finance this operation, it offered a $100 million issue of debentures at terms that meant a quick sell-out. FNMA also announced a plan whereby lenders may sell their mortgages under a 9-month repurchase option. Under this plan, which greatly resembles a "warehousing" operation, lenders for a 1-point fee may retrieve their loans within this period for the same price paid by the agency.

Even the Federal Reserve Board, which is, of course, the ultimate arbiter of credit for the entire economy, has let up a little on the brakes. FRB Chairman William McChesney Martin a few weeks ago, employing his own favorite metaphor, said the Board's policy was still one of "leaning against the wind." However, he added significantly that today not even the Federal money managers are certain of which way the wind is blowing. Figures of speech aside, the recent weekly statements of the FR System suggest that Washington's policy of active restraint, in effect since the fall, has been softened slightly.

Such signs and portents, while not necessarily conclusive, do indicate at least the beginnings of a turn in the money market. Moreover, there is reason to suspect that the move sooner or later will pick up speed. In this connection, the latest data on mortgage financing compiled by the Federal Home Loan Bank Board are not without significance. These statistics reveal that perhaps for the first time since the end of World War II, demand for mortgage funds and, consequently, mortgage recordings, have begun to show a year-to-year decline. In 1955, of course, nonfarm mortgage recordings of $20,000 or less soared to an alltime high of $28.5 billion, nearly 25% ahead of the $23 billion reported in 1954. In December, however, according to the latest statistics of FHLBB, such recordings totaled $2,188 million, a drop of 3.5% from the $2,267 million of December 1954. The sharpest declines in lending activity were noted for savings and loan associations and insurance companies.

While overall figures are not yet available, it appears that the downtrend continued in January. True, some lenders are still expanding their portfolios at a record clip. For example, the mortgage holdings of mutual savings banks increased by $192 million in the month, compared to $164 million in the corresponding period of 1955. Nonetheless, the savings and loan associations, which are far and away the biggest home mortgage lenders of all, continued to curtail their activities. In January, according to the Home Loan Bank Board, total loans closed by S & L's amounted to $652 million, off 12% from the $744 million of last January.

What's more, this year-to-year decline seems likely to prevail throughout 1956. Support for this view may be found in a recent detailed analysis of investment prospects prepared by Roy L. Reierson, economist and vice president of the Bankers Trust Co. According to this study, written only after the most intensive discussion with various experts in finance and investment, mortgage recordings for 1956 are likely to run to approximately $27 billion, off some $1.5 billion from the 1955 mark. More pertinent still, in the light of the mounting volume of repayments, the net increase in home mortgage debt is put at about $10 billion, down considerably from last year's $13 billion. Principal element in the slackening demand for mortgage credit, of course, is the prospective dip in housing starts, which, on some estimates, could slip 10% and possibly more below last year's 1,300,000 units.

At the same time, the supply of funds available for long-term investment appears to be mounting. Sales of new policies by life insurance companies since January 1 have been running ahead of comparable year-ago levels. The U. S. bought more Series E savings bonds in January than in any like month since January 1949, the Treasury announced the other day. The volume of consumer credit outstanding, a reliable guide to the public's attitude toward spending and saving, has been declining at a more-than-seasonal rate. For 1956 as a whole, according to the Bankers Trust Co., the major thrift institutions are likely to take in nearly a billion dollars more of the public's money than in 1955.

One further point about the credit scene seems worthy of mention - the very comfortable fiscal position of the U. S. Treasury, biggest borrower of all. The other day it successfully completed a major piece of refunding, exchanging more than $9.3 billion worth of maturing securities with a cash attrition of only $150 million, smallest in a long time. What's more, a growing mass of evidence suggests that the Treasury will wind up the current fiscal year with a much bigger budget surplus than its officials to date have been forecasting. In January an administrative surplus of $200 million was predicted. Adding in the social security and other trust funds, what is called the cash budget was expected to wind up $2.5 billion in the black. However, with revenues from income, excise and corporate profit taxes running well above earlier estimates, the Treasury may close the books on fiscal 1956 with $2-$3 billion more than expected. These figures suggest that the Treasury is likely to have less recourse to the money market this year.

So much for the state of the mortgage market. In the legislative realm, important preliminary moves also have been taking place. In the past decade, of course, housing and home finance have become increasingly a political football. This fact was underscored at the recent Savings and Mortgage Conference of the American Bankers Association. Prior to 1929 only four acts had been introduced in Congress regarding the mortgage or real estate business. During the 1930's, ten such acts were written into law. In the following decade no fewer than 63 measures were passed and this mark undoubtedly will be exceeded in the 1950's. In any case, 1956 is certain to contribute to the growing mass of Federal legislation. Already, dozens of bills have been dumped into the hopper on Capitol Hill and a number of changes in existing housing practices and programs are likely to result.

Toward the end of last month, Senator Homer E. Capehart (R., Ind.), on behalf of himself and Senator Sparkman (D., Ala.), introduced a measure known as the Housing Amendments of 1956. Briefly, the bill would provide an additional $3 billion in overall FHA insurance for fiscal 1957; broaden the FHA Title I program and make it permanent; liberalize FHA Section 221 (housing for families displaced by slum clearance) to increase the maximum amount of a mortgage to $8,000 in an average-cost area (and $10,000 in a high-cost area) as well as extend the maximum maturity from 30 years to 40; set up special mortgage insurance on housing for the elderly; and reduce the stock subscription required of those who sell home loans to FNMA from 3% to '1% or more.'

Another measure, representing the views of those who espouse a greatly expanded Government role in housing, has been introduced by Senator Lehman (D., N. Y.). It calls for an accelerated public housing program, Government financing of middle-income housing, FHA maturities of 40 years and other extreme ideas. Perhaps the best commentary on this piece of legislation was offered by Albert M. Cole, Housing and Home Finance Administrator, at a recent conference of the Mortgage Bankers Association in Chicago. Said Mr. Cole: "This is no mere proposal to get the nose of the Government financing camel back

under the private financing tent. This would move the camel and his whole family right inside."

While it's much too early to predict what sort of act will emerge from this session, particularly in view of the heated partisan differences, exacerbated by an election year, some of the probable provisions can be discerned. For example, it's clear that the operations of FNMA will be changed at least to some degree. Friends of the agency, who feel it has made remarkable progress toward private ownership in a relatively short time, are calling only for a reduction in the stock subscription. Its foes - and they are many - would do everything from compelling it to buy home loans at par to putting the agency back under the Government's wing entirely.

Furthermore, it appears that efforts will be made to increase the effectiveness of FHA's various multifamily housing programs, including Section 213 cooperatives, basic rental housing under Section 207 and Sections 220-221, which involve slum clearance and urban renewal. As to Section 207, some lawmakers have proposed reducing the 20% equity required to 10%, as well as the aforementioned increases in mortgage ceilings.

The Congressional pot, in short, is bubbling merrily. In the circumstances, lenders would do well to heed the wise words of Fred F. Florence, head of ABA, on this general subject: "Socially desirable as the program of Government guarantees may appear to be, it should never serve as an excuse for unsound credit, which ultimately might be harmful for both lenders and borrowers. When a Government program produces an inflation of housing costs, or when it causes the borrower to incur debt beyond his ability to repay, it becomes harmful instead of beneficial."